

The Medium-Term Management Plan

Background to Formulating the Medium-Term Management Plan

The business environment surrounding the AFS Group has gone through drastic change. In Japan, the competitive environment and competitors themselves have changed with the promotion of cashless payment and the influx in financial markets of new players and platforms from other industries, such as telecommunications.

In Asia, a region that has seen exceptional economic growth, needs are changing as customers' standards of living rise and smartphones are becoming more widespread at a remarkable rate. If we are to remain the financial service

provider of choice amid conditions such as these, we must introduce digital technology without delay.

Against that backdrop, the Group has formulated a medium-term management plan, covering the period from fiscal 2021 to 2025, that puts customers first to create a business model that can provide optimal financial services to customers when they need them. We have positioned the period of this plan as our "second founding," rooted in "value chain transformation and new network creation."

Our Aspirations for the Medium-Term Management Plan

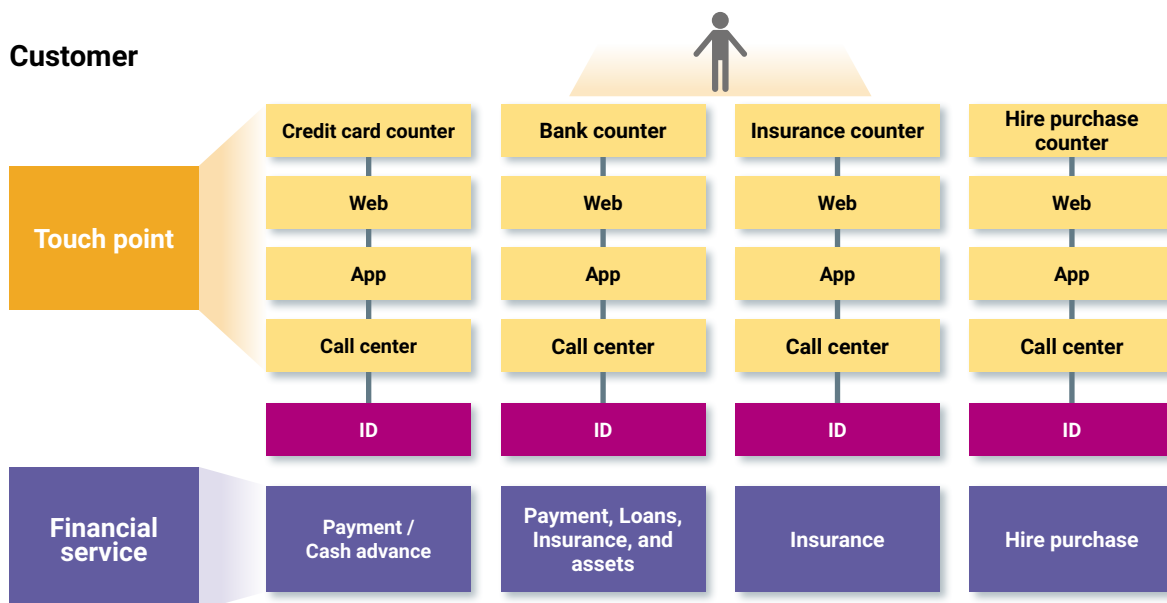
Current Group Conditions

To date, customers have considered their financial needs on their own, approached the Group through its sales channels, and made use of its services. In addition, each Group company has sought to maximize profits by providing optimal services for individual customers based on the Group's independent and autonomous management policy.

Customer Approach to Date:
Sales of Financial Products



Our Business Model to Date



Policy of Medium-Term Management Plan

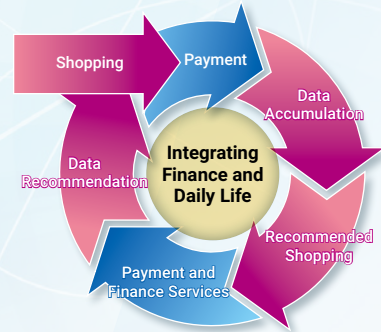
Our Second Founding— Value Chain Transformation and New Network Creation

Build a living area (marketplace) by connecting the services of the AEON Group and its partners with financial services such as payment and point systems

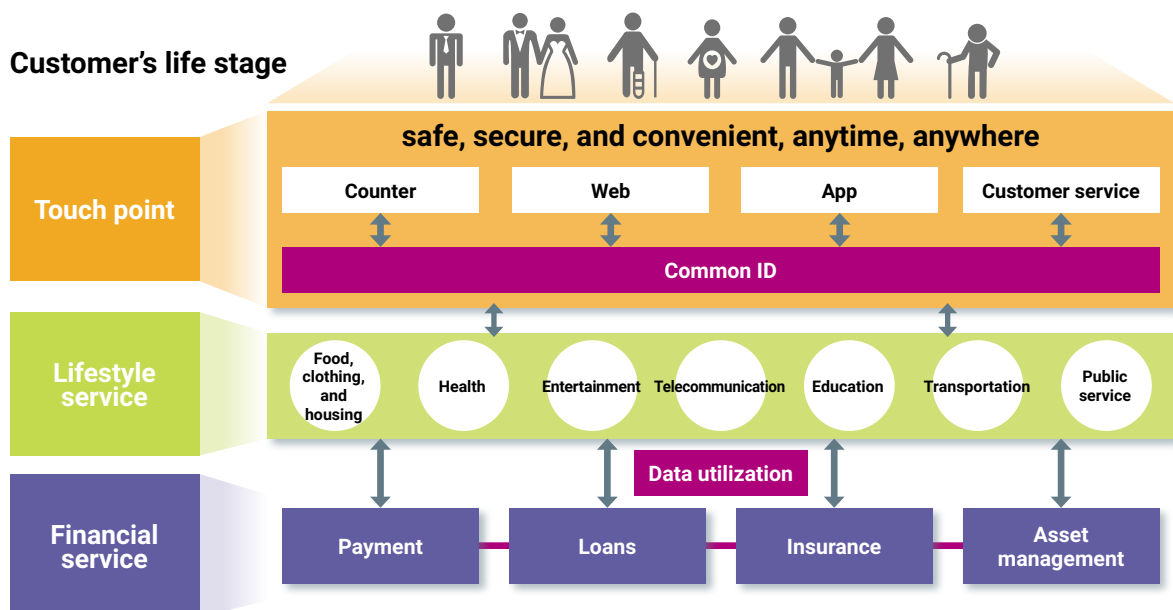
Our Vision for the Group

Going forward, we will anticipate customers' new financial needs and provide personalized services. We have an overwhelming advantage in this endeavor in the form of data and expertise accumulated from our in-person stores and other customer contact points in Japan and overseas. We will put this data to full use to build a platform that balances the digital and the real and to provide services that are "safe, secure, and convenient, anytime, anywhere."

**Customer Approach Going Forward:
Provision of Financial Services when Customers
Need Something Done**



Our Business Model Going Forward



Main initiatives

Domestic Business



1

Creating Infrastructure for the Construction of AEON Living Area

One of the growth strategies of the AEON Group is to create AEON Living Areas and to combine the comprehensive capabilities of each Group company to enrich the lives of customers through the seamless provision of products, services, and living infrastructure rooted in the local community. The AFS Group plays a role in creating infrastructure that connects these AEON Living Areas with financial services. As part of these efforts, the AEON Group is collaborating with us to provide payment methods that can be used “safely, securely, and conveniently, anytime, anywhere,” while also working on “Group-based cashless promotion,” which positions our payment services, such as AEON Cards as the main payment methods. Furthermore, we will analyze the service usage information accumulated through these initiatives and leverage the sales base of each Group company to establish a system that can provide personalized services to individual customers in a timely manner, through both digital and analog methods. In doing so, we will achieve dramatic increases in both the volume of transactions and the number of card-holders and will expand cross-sales to each of the Group’s businesses, which include health promotion insurance and other insurance-related businesses.

2

Fulfillment of the Living Infrastructure Needs of Local Customers

We are working to support local governments with local currencies and regional gift certificate issuance projects and to meet needs related to health, telecommunications, and other essential daily life matters. These efforts will provide local customers with a wide range of opportunities to use the services available at AEON Living Areas, helping them realize enriching lifestyles where they can receive services that are “safe, secure, and convenient, anytime, anywhere.”

3

Increase of Risk and Cost Control Capabilities

In addition to enhancing credit and receivables management through scoring that utilizes AI, we will work to expand our base of customers that provide financial services. Furthermore, we will review both real and digital customer contact points related to financial services and provide flexible services according to customer needs, such as one-stop and online customer services and unmanned stores. We will also review head office functions that support the implementation of priority measures under our current medium-term management plan, optimize resource allocation throughout the Group, and improve the accuracy of our risk and cost control capabilities.

Global Business



1 Implementing Digital Financial Inclusion in each Country

Digital financial inclusion is a priority measure for governments in Asian countries where we are developing Group business. Therefore, we are working to increase convenience for our customers with efforts toward early offerings of apps and digital products, in addition to digitalizing existing services. Similar to our efforts in Japan, we will also draw on our networks of AEON Group companies and business partners to build AEON Living Areas in these Asian countries.

2 Expansion of Business, Products Offered, and Expansion Areas

In leading developing countries such as Thailand and Malaysia, where there are growing numbers of high-income earners, we will expand our lineup—from the financial products centered on installment payments and loans that we have offered up to now to insurance products and asset management services—as a response to the diversification and sophistication of our customers. Furthermore, we will make concerted efforts to expand our portfolio by diversifying our business through connections with leading partners. Moreover, in developing countries such as Vietnam that are in a newer stage of growth, we will pool our business expansion expertise to expand services that can enrich the lives of our customers.

3 Area Strategy Planning that Responds to the Differences in Needs between Cities and Regions

We will look closely at each country and area in which we operate and identify customer needs, demographics, and the differing impacts of the COVID-19 pandemic in respective cities and industries and provide optimal services in an optimal manner, tailored to the characteristics of the individual country and area.

Enhancing Our Business Foundation in Japan and Overseas

Common issues in promoting these efforts in both our domestic and international business activities include the establishment of governance systems related to IT and systems, the development of human resources, such as management and IT specialists, and the establishment of business models that prioritize sustainability. To achieve sustainable growth, in addition to our efforts in Japan and overseas, we also need to take steps to adopt a long-term, ESG-based perspective and incorporate solutions to

environmental and social issues on a global scale as part of our management strategy. We then need to put those solutions into practice. From this standpoint, we will use financial services as a means to tackle the various issues facing local communities that come with climate change, poverty, and declining birthrates and aging populations while working to expand our business. In doing so, we will reinforce the effectiveness of our medium-term management plan.

Management Message

We will take the greatly changing landscape as an opportunity to transform our value chain, making even greater strides forward.

Fiscal 2020—Every Anticipated Change in a Single Year

The spread of COVID-19 in fiscal 2020 caused a significant transformation in customer needs and behavioral patterns. As a result, other changes—ones that we had anticipated happening several years down the line—also occurred within this same year. Specifically, self-quarantining and stay-at-home measures prompted a whirlwind transition toward digital technology and online activities. The payments sector, one of our main businesses, also saw a rapid shift toward cashless payment.

This shift could be seen in our banking and insurance businesses, both of which are part of our Domestic Business, where we expanded services such as our online reservation systems for branch visits and our video consultation and processing desks. We also introduced remote services for these businesses. Additionally, COVID-19 has created the need for avoiding close contact. In response, we increased the number of credit cards issued with touch payment functions. In our Global Business, the demand in each country of operation for online capabilities prompted us to develop and provide appropriate products and to digitalize our services. We are also taking steps to improve business surrounding receivables. These steps include using AI, both to refine credit screening and build a debt collection system for each of these countries, which will reduce the ratio of delinquent receivables.

These are some of the ways we have ramped up our previous Groupwide effort toward digital transformation (DX), but while we have worked to keep ahead of changing customer behaviors with these measures, there may still be areas where they have fallen short in addressing the longer-than-expected spread of COVID-19 and changing customer lifestyles.

Transformation of Our Value Chain Anew and Advancement of our AFS Ecosystem

Changes in the external environment are not just limited to changes in the lives of our customers. As the AEON Group's comprehensive financial business, we are committed to providing financial services to customers, particularly those who shop at AEON Group retail stores, and maximizing profits. However, the competitive environment around the financial

industry is changing. What was once a competition of company versus company is now one of platform versus platform, meaning we must pursue a business model that uses the entire AEON Group as its platform. If we cannot do this, there is a real danger that we may not be able to survive.

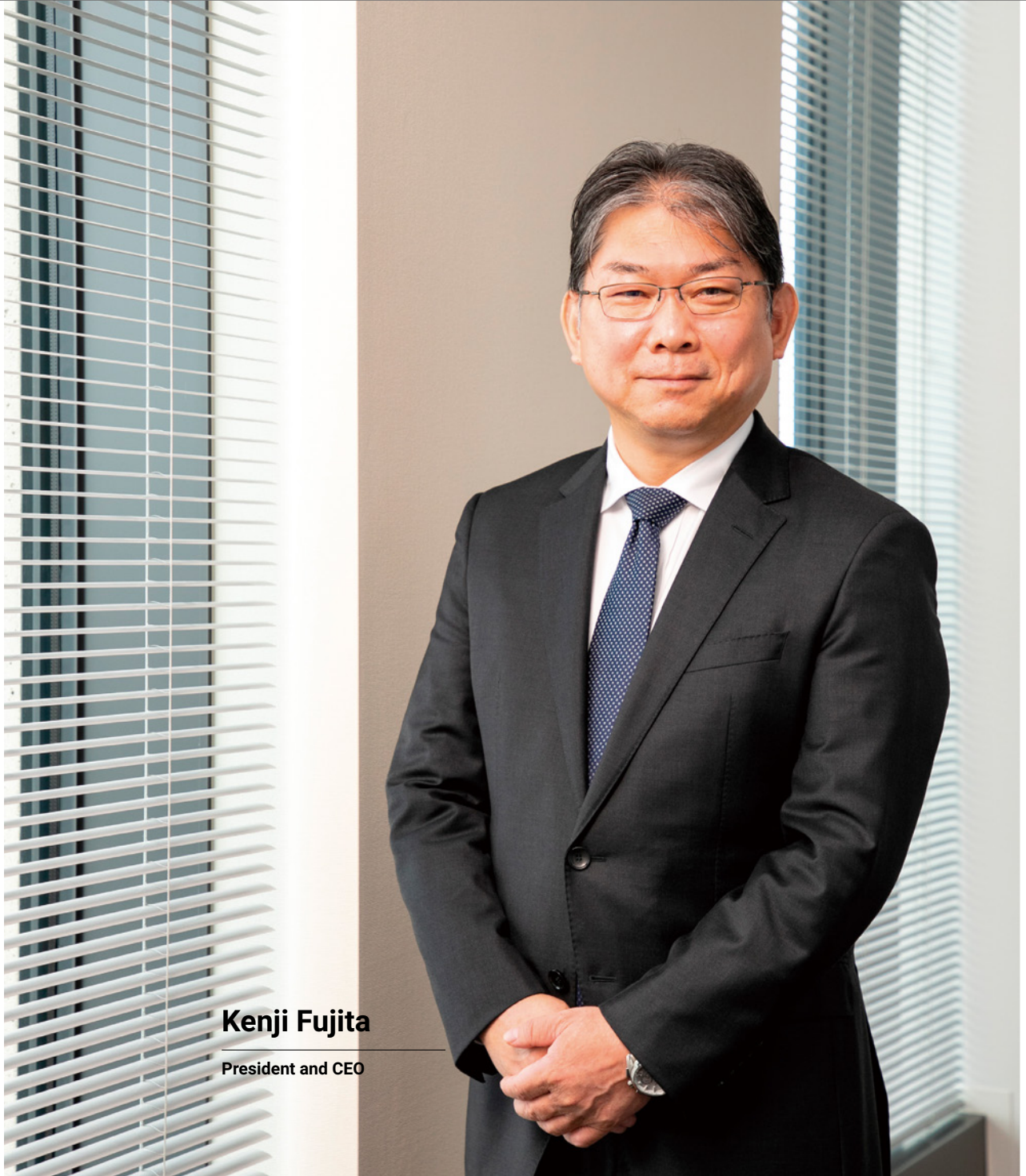
When you step back and look at a value chain that provides financial products, you realize that we are past the age when you could build a complete value chain with a single company. Up to this point, we have endeavored to build an "AFS ecosystem," aimed at being the most familiar of its kind in Asia. This ecosystem was to have a value chain centered on AFS's own businesses, but going forward, we need to build a platform that goes beyond our financial products, services, and customer base. From that perspective, we must transform our value chain anew and advance our existing AFS ecosystem.

The Medium-Term Management Plan—Our "Second Founding"

For a value chain to address the future business environment in the way I have mentioned, it needs to have some involvement in the stages prior to when a financial need appears, and there needs to be a way to understand what kinds of products and services are required to address this need. Therefore, instead of passively waiting for customers to come to us for products and services as we have done in the past, we will take more of a market-in approach and utilize a complex business model created with the AEON Group and our business partners to approach customers.

We will also make online-merge-offline (OMO) the post-COVID-19 norm. As part of this effort, we aim to provide financial services that offer a seamless online and offline experience. To accomplish this, it is important that we work with stakeholders that provide upstream services while creating a horizontally integrated network.

Consequently, the basic policy of our current medium-term management plan is "value chain transformation and new network creation." Under this policy we are setting out to create a more complex value chain and build a marketplace. In other words, we are treating this plan as our "second founding."



Kenji Fujita

President and CEO

Utilization of the Group's Strengths to Create a Financial Infrastructure for AEON Living Areas

In the Domestic Business, we will draw from the aforementioned basic policy to create the most convenient and affordable financial infrastructure possible for AEON Living Areas. This means providing the most convenient and affordable payment methods and connecting all the products and services offered by AEON Group companies. With these efforts, we will make the AEON Group go cashless.

Up until now, it cannot be said that we at AFS have fully taken advantage of the AEON Group's resources, nor can it be said that the AEON Group has taken full advantage of the resources AFS has as a financial business. The AEON Group's strength lies in its physical contact points across Japan. This is an advantage that other platforms do not have. We will

provide new cashless services at AEON Living Areas to maximize the resources of the AEON Group.

As a first step, we changed the type of points that can be earned from using AEON Cards to WAON points, starting from September 11, 2021. In the same month, AEON also introduced iAEON, AEON's all-in-one app. We have been working to develop this app as a platform, enabling functions such as code payments.

We have another challenge on our hands, namely expanding our insurance business through cross-selling in AEON Living Areas. To meet the needs of the customers who frequent AEON Living Areas, we will conduct proxy sales of products for other life insurance and non-life insurance companies. With the addition of AEON Allianz Life Insurance Co., Ltd. to the AFS Group in fiscal 2020, we will also provide

group creditor insurance developed by that company as well as products we are planning for the future, such as insurance centered on promoting health. Regarding the last type of insurance, we plan to differentiate ourselves from the competition by appealing to the increasing health consciousness of customers through app development and other means.

In addition, we will deepen our ties with stakeholders such as AEON Group companies, external partners, and local public organizations in order to reach a wide range of customers outside of AEON Living Areas. Traditionally, the AEON Group has collaborated with local governments in Japan and overseas to make various efforts as part of the local community and is recognized as a local lifeline in the event of an emergency. Expanding on these efforts when times are calm and deepening our relationships with these local governments can help create an AEON Living Area. To this end, we have started businesses that involve issuing local currencies and gift certificates produced by local governments. I believe that helping these local governments grow and being mindful of our existence as a corporate group rooted in these areas will help AFS grow as well. Therefore, we will continue working actively to deepen our ties with local governments and communities.

The Global Business—Operating in Countries with Huge Potential for Growth

In the Global Business we will promote initiatives that expand our business, products, and areas of development. We have established a foundation for the Global Business in Thailand, Malaysia, and Hong Kong, and the local subsidiaries in each

country and region are listed and have grown to the point where they can generate stable profits. In these countries and regions, customers previously demanded payments for living expenses and durable consumer goods, but this has shifted to demand for saving and preparing for the future in forms such as insurance products and asset management. I believe that there is room for dramatic growth by expanding our portfolio of financial products to reflect these changing needs. In addition, Vietnam, Indonesia, Cambodia, and the Philippines are in their early stages of growth and, therefore, have high potential for economic growth. We expect our business to expand in these areas. Our focus will be on a business model that takes advantage of the growth in each area by getting a grasp of their respective financial needs and then applying our cultivated know-how and experience to meet these needs while also investing resources toward expansion.

Digital financial inclusion is another important measure for each of these countries. While the rate of progress varies depending on the country, customers are moving beyond computers to embrace smartphones as their digital environment. As part of this rapid change, there have been several breakthroughs, and unicorn companies aiming to create platforms are utilizing digital technology to create new social infrastructure. Southeast Asia has shown remarkable development in this regard. When I was assigned to work in Malaysia, I bore witness to the rapid spread of ride-sharing apps and the rapid growth of the companies that make these apps.

These unicorn companies aiming to create platforms are creating new financial systems one after another by providing apps that link their services with financial services. While this is an area with huge potential for market growth, app development is not a big business in and of itself. What is important is cross-selling in combination with a variety of services. We are developing an app that brings together financial products such as banking services, credit cards, and insurance and makes it possible to complete all related procedures via smartphone. Instead of focusing on our services alone, we want to build a network with companies that provide a variety of services in each country and region and cultivate this network into an app that will be able to provide these services seamlessly.

Balancing of Concentrated and Decentralized Authority with Emphasis on Independent Operations in Each Country

Our medium-term management plan stipulates a 60:40 operating profit ratio between the Global Business and Domestic Business, and in fiscal 2021 we appointed directors with abundant overseas work experience and knowledge. Since global standards currently demand a higher level of corporate governance and sustainability, we would like to facilitate



speedy decision-making in these areas. With international standards being applied to the Tokyo Stock Exchange's governance standards, we will take steps to comply with both international and domestic standards. At the same time, we will use our management capabilities to the fullest to conduct monitoring as a pure holding company and to distribute management resources, improve organizational strength, and reorganize our portfolio as an operating holding company.

We will also ensure that Groupwide management functions effectively while stressing the independence of each region. The benefit of an overseas subsidiary becoming a listed company is that it increases local recognition and corporate value while increasing the autonomy of management. I believe that the listing of these companies has great significance to the AFS Group as a whole for raising funds and acquiring talented human resources. Regarding the parent-child listing of AEON Financial Service Co., Ltd. and AEON Co., Ltd., we will navigate the differences between the retail and finance industries to conduct business with a sense of responsibility to our shareholders and will enhance governance in a way that ensures our own independence.

In fiscal 2021, we have worked to increase the sophistication of our governance system. In recent years, events that AFS cannot control, such as natural disasters and the COVID-19 pandemic, have been on the rise. To build a corporate structure that can mount a flexible response to unforeseen circumstances, we have acquired ISO 22301 certification and conduct regular training. Risks that are particularly relevant to the AFS Group range widely, from the risk of leaking customer information, to IT risks, to country-specific risks. Because of this, we conduct risk management to ascertain the business risks that need to be addressed in order to ensure medium- to long-term corporate growth.

Sustainability Management from a Long-Term Perspective

In recent years, smartphones have become a vital commodity. Not only are they a means of communication, but in the Asian countries where we operate, they are an essential item for earning a higher income. I believe that providing financial services linked to smartphone purchases will not only contribute toward the lives of customers but will also allow us to contribute toward social development through our business activities. Looking at things from a long-term perspective, we will need to clarify the environmental and social issues facing stakeholders who make use of AEON Living Areas and work to resolve them. One kind of value we can provide to resolve these issues is in our financial services that make use of our customers' trust. Take the countries and regions where we operate as an example. There are a variety of social issues in these places, but one common to all of them is an

underdeveloped social infrastructure. Obtaining a form of mobility is essential for reaching a certain level of income in these countries and regions. Providing mobility has a strong significance socially, and when I was assigned to work in Malaysia, my focus was on financial services connected to this very thing. About 30% of registered motorcycles in Malaysia were purchased using these financial services, helping create employment opportunities and improving the standard of living for our customers. In the future, we will look to countries where insurance has a low penetration rate and there is no access to basic insurance services and work to alleviate their concerns regarding money and health and provide insurance within their reach. These and other efforts are examples of the financial services we want to propose and provide in order to help customers of AEON Living Areas lead richer lives. To support these efforts, we will promote sustainability management that resolves a variety of social issues while leading to the sustainability of the Company.

I believe that we can demonstrate our synergies even further by working with the entire AEON Group to deal with climate change. We are also making efforts to reduce carbon output through our financial services, one of which involves the AEON Card Select card, a card issued by AEON Bank, Ltd. that is a combined cash card and credit card with e-money functions. We are making the switch to recycled materials for the plastic used in these cards. As another initiative, we will work with external housing companies and car dealerships to provide loan packages that combine loans for constructing carbon-neutral housing and for electric vehicles.

The Active Participation of Employees— A Vital Part of Building a Marketplace

In our marketplace, we will anticipate customers' financial needs and provide personalized services. To make this a reality, we need employees to think about where a customer's anxieties, skepticism, and dissatisfaction lie, and how to put these to rest. For this reason, we expect to take an active part in business and management, as opposed to relying on a top-down structure.

Fiscal 2020 was a year of reflection, as existing businesses failed to achieve stable growth amid major changes in the environment. At the same time it also brought to light issues that management needs to tackle in order to spur innovation and creativity. From fiscal 2021 onward we will execute our medium-term management plan to create a new value chain while addressing the changing landscape. In addition, we will pursue businesses aimed at solving social issues faced by stakeholders, such as changes in customer value systems in a post COVID-19 society, and aim to increase corporate value. I ask for your continued support as we move forward with these efforts.

CFO Message

We aim to build a financial base that will help raise corporate competitiveness.

Tomoyuki Mitsufuji

Director and Senior Executive Officer
Group Corporate Management,
Group Risk Management



Our Financial Policy and Funding

2021 marked the 40th year since the founding of AEON Financial Service. The business areas where we operate in Japan expand with each passing year while becoming increasingly complex at the same time. Our business structure is centered in banking and similar asset-related businesses, but loan periods differ for each country and product, as do the dips and swells for funding demand. This has made securing funds in a manner tailored to each case an issue. As a parent company to 32 subsidiaries in Japan and overseas, we employ a system in which we secure funds all at once and then loan to these subsidiaries while properly monitoring each of their funding demands. We utilize a variety of methods to raise these funds that include bank deposits and loans, bond issuance, and securitization of receivables while keeping a close eye on the market environment in the process.

We have also worked to reform our business portfolio by expanding our sources of fee-based revenue that does not depend on assets. This process has involved enhancing insurance sales and other asset management businesses that take advantage of investment trusts and agencies as well as strategic investments, such as investing in the development of apps that will promote cross-selling to Group businesses. The COVID-19 pandemic has also created the need to provide services that avoid face-to-face interaction and contact. To facilitate this shift, we continue to make investments in digital transformation (DX).

Results and Financial Standing for Fiscal 2020

Consolidated operating revenue increased 6.6% from the previous fiscal year, to ¥487.3 billion, while consolidated operating profit was down 37.5%, to ¥40.6 billion. During the state of emergency, there was a significant decrease in demand for leisure and other activities as well as a decline in

revenue from lending centered on cash advances. However, operating revenue still increased, thanks to the inclusion of revenue from AEON Allianz Life Insurance Co., Ltd. (hereinafter "AALI"), which joined the Group in March 2020, and greater fee-based revenue from a rise in the number of WAON e-money transactions, stemming from the strong sales at AEON Group supermarkets. On the other hand, operating profit decreased after an increase in provision of allowance for doubtful accounts in the first quarter and the subsequent increase in reserves for doubtful accounts.

This allowance was calculated after applying IFRS No. 9 "Financial Instruments" to our Global Business, assessing whether there is an increase or decrease in receivables within the scope of this allowance, checking for occurrences of delinquency or bad debt, and making predictions for future bad debt based the outlook for financial indicators. In fiscal 2020, we increased our allowance for doubtful accounts considerably after factoring in the economic environment, which worsened as a result of COVID-19. However, the situation surrounding bad debt and delinquency improved toward the end of the fiscal year as a result of more elaborate credit screening and stronger debt collection in Hong Kong, Thailand, and Malaysia, all of which are major areas of operation. As consumption and funding demands recover, we intend to increase the amount of finance receivables while maintaining their quality. In fiscal 2021, vaccine rollouts began in each country of operation. Economic activities are expected to pick up again and we expect loan revenue to recover in kind. This will be the key to reaching our target figures.

The Financial Strategy of Our Medium-Term Management Plan

Fiscal 2021 is the first year of our medium-term management plan, which covers the period from fiscal 2021 to fiscal 2025.

Under this plan, we intend to leverage value chain transformation and new network creation to build an eco-system, or marketplace, that connects the services of the AEON Group and its partners with financial services such as payment and point systems. We have highlighted the period from fiscal 2021 to fiscal 2022 as one for making key investments. As a first step, we are establishing the infrastructure to develop apps to acquire customer IDs and to enhance our direct insurance business operated by AALI. Acquisition of customer IDs involves integrating one of the strengths of the AEON Group, its network of stores with multiple formats, with digital technology. Therefore, we have begun investment and platform development toward creating a single ID for AEON Card cardholders, of which there are 29 million, that can be used across the AEON Group's various services. We plan to interlink and make use of the data possessed by various parts of the AEON Group to offer customers who frequent AEON Group stores financial products that combine financial and life services.

In what is called the "era of the 100-year life," there is also a growing interest in extending one's healthy life expectancy. To support this interest, our insurance business will put our sales and direct insurance capabilities on full display. In addition, we are also developing an app dedicated to insurance that promotes health. With these and other efforts, this business will provide services that help customers in their pursuit of

better health. Insurance services and products related to promoting health are especially compatible with the rest of the AEON Group, giving the Group the chance to demonstrate its strengths, namely its sales channels, products, and data collection, to enable cross-sales that will provide new value as an entire group to customers. When it comes to regions or fields where our business model is not compatible with the Group's initiatives, we always have the option of working with our external partners or conducting M&As.

Policy for Shareholder Returns

We consider shareholder returns to be an important part of management policy. Our basic policy is to increase corporate competitiveness by distributing profits to shareholders in an appropriate fashion while also maintaining internal reserves aimed at expanding business and increasing productivity. Our goal is to maintain a standard payout ratio of 30% to 40%. In fiscal 2020, COVID-19 led to diluted earnings per share (EPS) falling to ¥81.97 and to a dividend payout of ¥34.0 per share, an all-time low for the Company. This made it clear that raising profitability and improving EPS were important issues to confront in fiscal 2021.

In fiscal 2021, we will embark on our effort toward value chain transformation and new network creation, while also giving back to shareholders, and by balancing both, we aim to increase our corporate competitiveness.

Major Financial Indicators

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2025
Operating revenue*1	375.1	407.9	439.0	457.2	487.3	760.0
Year-on-year increase/decrease	104%	109%	108%	104%	107%	–
Operating profit*2	61.6	65.7	70.1	65.0	40.6	100.0
Year-on-year increase/decrease	104%	107%	107%	93%	62%	–

*1 Ordinary revenue from fiscal 2016–fiscal 2018.

*2 Ordinary profit from fiscal 2016–fiscal 2018.

IT Systems and Digitalization Investment Results

	Previous mid-term plan period				Fiscal 2020	Medium-term plan period
	Fiscal 2017	Fiscal 2018	Fiscal 2019	Total		Fiscal 2021–2025
Consolidated	35.3	34.4	33.3	103.0	39.8	210.0
Domestic	26.0	28.0	28.1	82.1	34.3	–
Global	9.3	6.5	5.1	20.9	5.4	–

KPIs

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2025
Ratio of bad debt allowance to operating revenue						
Domestic	73%	74%	74%	74%	65%	65%
Global	52%	53%	52%	52%	52%	46%
Ratio of personnel expenses to operating revenue						
Domestic	18%	17%	16%	16%	15%	9%
Global	16%	16%	16%	15%	14%	10%

* From Fiscal 2016 to Fiscal 2018, the cost ratio is as a percentage of ordinary income. Operating expenses include selling, general and administrative expenses and financial expenses.